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**FISCAL IMPACT STATEMENT**

**LS 7754**

**BILL NUMBER:** SB 609

**NOTE PREPARED:** Jan 17, 2005

**BILL AMENDED:**

**SUBJECT:** County Income Tax Distributions.

**FIRST AUTHOR:** Sen. Kenley

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (A) The bill distributes county adjusted gross income tax (CAGIT) revenue to civil taxing units and school corporations according to a formula based on budget appropriations. The bill distributes county option income tax (COIT) revenue to civil taxing units according to a formula based on budget appropriations. The bill distributes county economic development income tax (CEDIT) revenue to counties, cities, and towns according to a formula based on budget appropriations.

(B) The bill provides that the Department of State Revenue (Department) shall make adjustments to increase a county's certified distribution of CAGIT revenue when a county increases the tax rate, in the same manner required when the county initially imposes CAGIT. The bill provides that the Department shall make adjustments to increase a county's certified distribution of COIT revenue when a county increases the tax rate, in the same manner required when the county initially imposes COIT. The bill provides that the Department shall make adjustments to increase a county's certified distribution of CEDIT revenue when a county increases the CEDIT tax rate, in the same manner required when the county initially imposes CEDIT.

The bill makes related changes.

**Effective Date:** Upon passage; January 1, 2006.

**Explanation of State Expenditures:** *Summary:* (B) Under current law, when a county adopts a local option income tax, the Department of State Revenue makes a distribution in the immediate year. The State Budget Agency must project a six-month balance in order to generate a recommendation on the certification for the newly adopting county. The bill would require the Budget Agency to make projections for counties with a local

option income tax (LOIT) that were to raise their rates, so that the Department would be able to adjust their certified distribution in the immediately following year for the rate increase. Under current law, a rate increase takes two years to reflect in a county's certified distribution. Certified distributions would begin to be affected, under the bill, in CY 2006. Differences in projections over the actual collections in a county that increased its tax rate would be temporarily made up by the state General Fund and would be repaid with future LOIT collections.

The provision would increase the administrative time necessary for the Budget Agency and the Department to project and certify new distributions for counties increasing their LOIT rates.

### **Explanation of State Revenues:**

### **Explanation of Local Expenditures:**

**Explanation of Local Revenues:** *Summary:* Under current law, CAGIT, COIT, and CEDIT certified shares, and CAGIT property tax replacement credits (LPTRC) are distributed to qualifying taxing units, proportioned on the basis of property tax levies. The bill would change the basis from unit levies to budget appropriations.

Under the bill, civil taxing units that receive CAGIT, COIT, or CEDIT certified shares could realize either a decline or increase in those shares in future years based upon the redistribution formula specified under the bill (*See Formula Derivation*).

The impact to the unit revenue would depend on the unit's proportion of the total budget appropriations of all units in the county (proposed distribution method) as opposed to the unit's proportion of the total levies of all units in the county (current distribution method). Appropriations would not include the amounts of future debt, leases, and federal revenue removed by the distribution formula under the bill. Since appropriations are based on all revenue, the amount of non-property tax revenue received by a unit would have a direct bearing on any change to the portion of LOIT proceeds that the unit receives under this new distribution formula.

Some CEDIT counties, that have opted to do so, would continue to distribute their CEDIT shares under the population distribution provisions of current law and would not be affected by this provision.

Both civil taxing units and schools receive LPTRC. While the amount of LPTRC distributed to each unit would change under this bill, the loss or gain of LPTRC would not affect a unit's overall revenue. A loss of LPTRC would increase a unit's gross levy while a gain of LPTRC would reduce the levy.

The bill does not change the county aggregate amount of certified shares or LPTRC shares.

The total distributive shares in CY 2003 are displayed in the following table:

| LOIT Share Type | Total Distribution CY 2003 |
|-----------------|----------------------------|
| CAGIT PTRC      | \$ 82.2 M                  |
| CAGIT SHARES    | \$234.5 M                  |
| COIT SHARES     | \$409.8 M                  |
| CEDIT SHARES    | \$146.0 M                  |

The above distributions are net of LOIT revenue used for county jail, homestead credit, and certain other projects allowed under current law.

*Formula Derivation:* For use in the distribution formula, a taxing unit's annual budget would be reduced to an operating budget by the removal of:

- (1) Appropriations for debt obligations or leases issued after June 30, 2005;
- (2) All proceeds from any property received as the result of any debt obligation that was appropriated for any purpose other than to refund or refinance a debt obligation issued before July 1, 2005; and
- (3) Any appropriations of federal grants to a civil taxing unit.

Budgets for taxing units that are located in more than one county would be apportioned to each county on the basis of the unit's population within each of those counties.

To determine the unit's new local income tax share, the new operating budget of the unit would be divided by the operating budgets of all the units within the county. The unit ratio would then be multiplied by the county certified distribution of either CAGIT, COIT, or CEDIT to determine the new certified share of the unit.

**State Agencies Affected:** Department of State Revenue; State Budget Agency.

**Local Agencies Affected:** All civil taxing units and school corporations (CAGIT PTRC only) within a county that imposes a local option income tax.

**Information Sources:** LOCAL GOVERNMENT DATABASE (LOGODABA).

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